Appendix B

TREASURY MANAGEMENT POLICY STATEMENT

Kettering Borough Council's Treasury Management Policy is embraced by the following three principles;

1. This Authority defines its treasury management activities as*: "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".*

2. This Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority.

3. This Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of *"achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."*

TREASURY MANAGEMENT STRATEGY 2018/19

Introduction

1 Background

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The Council's treasury management function primarily ensures that the organisations cash flow is properly managed and that cash is available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the future borrowing needs of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

Reporting Requirements

1.4 The following reports are made during the year:

a. Before the start of the financial year – Capital plans (including prudential indicators), a minimum revenue provision policy, a Treasury Management Strategy including treasury Indicators and an investment strategy.

b. During the year – any updates that are required will be reported through the Durable Budget Reports (incl. a mid year position report)

c. At the end of the year – the actual prudential and treasury indicators will be reported as part of the Councils' out-turn reports.

The above reports are required to be adequately scrutinised before being recommended to Council. This role is undertaken by Executive.

In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. From 2019-20, all local authorities will be required to prepare a Capital Strategy report, which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services

- an overview of how the associated risk is managed
- the implications for future financial sustainability

Treasury Management Consultants:

1.5 The Council uses Link Asset Services (formerly Capita), Treasury solutions as its external treasury management advisors.

1.6 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

1.7 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 Treasury Management Strategy for 2018/19

2.1 The strategy for 2018/19 covers two main areas (in line with the requirements of recommended best practice);

Capital:

- Section A The Capital Plans and Prudential Indicators 2018/19 – 2022/23;
- Section B Minimum Revenue Provision Strategy and Policy Statement 2018/19;

Treasury Management:

- Section C Affordability Indicators;
- Section D Current Treasury Position;
- Section E Treasury Indicators 2018/19 – 2022/23;
- Section F Prospects for Interest Rates;
- Section G Borrowing Strategy;
- Section H Policy on Borrowing in Advance of Need;
- Section I Debt Rescheduling;
- Section J Municipal Bonds Agency;

Investment Strategy:

- Section K Investment Policy;
- Section L Creditworthiness Policy;
- Section M Cash Flow Investment Strategy;
- Section N Policy on use of External Service Providers;
- Section O Investments that are not part of treasury management activity.

2.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

CAPITAL

Section A - The Capital Plans and Prudential Indicators 2018/19 – 2022/23

2.3 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.4 *Capital Expenditure* - this Prudential Indicator is a summary of the Council's capital expenditure plans (as currently contained in the Councils draft budgets);

TABLE 1	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Capital Expenditure	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Private Sector Housing Improvement	558	619	614	500	500	500	500
Invest and Repair Programme	311	690	198	180	180	180	180
Community Project Schemes	180	188	32	32	32	32	32
IT Investment Programme	264	220	220	220	220	220	220
Commercial Investments		42,351	25,000	20,000	20,000	20,000	0
Invest to Save Projects	195	317	2,630	2,630	380	380	380
HRA	4,494	4,083	6,156	3,229	3,451	3,445	3,518
Total Capital Programme	**6,002**	**48,468**	**34,850**	**26,791**	**24,763**	**24,757**	**4,830**
Leases	91	0	0	90	3,700	0	90
Total Capital Expenditure	**6,093**	**48,468**	**34,850***	**26,881**	**28,463**	**24,757**	**4,920**

*Following the Executive meeting on the 17th January, Members were minded to bring forward the Councils Commercial Investments programme forward by one year throughout the medium term. Accordingly, following further consultation with the Finance Portfolio holder the draft Capital programme has been amended to reflect this.

TABLE 2	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Capital Expenditure / Financing	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non – HRA	1,508	44,385	28,694	23,562	21,312	21,312	1,312
HRA	4,494	4,083	6,156	3,229	3,451	3,445	3,518
Total Capital Programme	**6,002**	**48,468**	**34,850**	**26,791**	**24,763**	**24,757**	**4,830**
Leases	91	0	0	90	3,700	0	90
Total Capital Expenditure	**6,093**	**48,468**	**34,850**	**26,881**	**28,463**	**24,757**	**4,920**
Financed By							
Capital Grants	619	634	1,148	500	500	500	500
Capital Receipts	743	1,273	969	857	808	517	303
Revenue Contribution	4,640	2,948	2,674	2,512	2,783	3,068	3,355
Net financing need for the year	91	43,613	30,059	23,012	24,372	20,672	762

2.5 *The Council's Borrowing Need (the Capital Financing Requirement)* - the second Prudential Indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

TABLE 3	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Capital Financing Requirement As at 31 March	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non-HRA	15,138	57,708	83,898	104,462	126,015	143,966	142,007
HRA	63,722	60,822	59,845	56,345	52,845	49,845	46,845

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
TOTAL	78,860	118,530	143,743	160,807	178,860	193,811	188,852
Movement In CFR	(4,303)	39,670	25,213	17,064	18,053	14,951	(4,959)
TABLE 4	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Movement in CFR represented by	**actual**	**Latest Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Net financing need for the year	91	43,613	30,059	23,012	24,372	20,672	762
Less MRP and other financing movements	4,394	3,943	4,846	5,948	6,319	5,721	5,721
Movement In CFR	(4,303)	39,670	25,213	17,064	18,053	14,951	(4,959)

Section B - Minimum Revenue Provision Strategy and Policy Statement 2018/19

2.5 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP).

2.6 MHCLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year – the following strategy is a continuation of the successful strategy used in 2017/18:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- *Existing practice* - MRP will follow the existing practice outlined in former MHCLG regulations (option 1). This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be:

- *Asset Life Method* – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3). This option provides for a reduction in the borrowing need over approximately the asset's life.

2.7 MRP Holiday - The Council may incur expenditure that does not involve the creation of an asset on the Council's balance sheet, but instead may be in the form of a long-term debtor arising from loans or other types of capital expenditure made by the Council. Under such arrangements, there will be no Minimum Revenue Provision made, as the Council will earmark subsequent repayments as capital receipts and set these sums aside to reduce the overall debt liability (Capital Financing Requirement) of the Council. Any such schemes will be reviewed on a case by case basis to ensure that the Council continues to meet its requirement to make a prudent provision each year.

2.8 The Authority has opted to charge the HRA on an annual basis and make provision for the repayment of its debt liability.

2.9 Repayments included in annual finance leases are applied as MRP.

2.10 *The Use of the Council's Resources and the Investment Position* - The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources.

Detailed in Table 5 are estimates of the year end balances for each resource and anticipated day to day cash flow balances. The table now reflects the under/over borrowing position of the Council. This is explained further in Table 9.

TABLE 5	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Year End Resources	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fund balances	2,265	2,265	2,275	2,235	2,195	2,155	2,155
Reserves	23,129	25,105	25,105	24,605	24,605	24,105	24,105
Capital receipts	3,558	1,994	1,763	1,717	1,432	1,108	1,076
Total core funds	28,952	29,364	29,143	28,557	28,232	27,368	27,336
Working capital	3,050	3,050	3,050	3,050	3,050	3,050	3,050
Less: Internal Borrowing	13,301	13,207	12,169	10,038	8,058	6,573	4,012
Expected investments	18,701	19,207	20,024	21,569	23,224	23,845	26,374

Section C - Affordability Prudential Indicators 2018/19 – 2022/23

2.11 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

2.12 *Actual and estimates of the ratio of financing costs to net revenue stream* - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

TABLE 6	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Ratio of financing cost to net Revenue stream	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
Non-HRA	1.65%	5.85%	28.07%	46.91%	63.19%	77.35%	83.23%
HRA	11.03%	10.59%	10.26%	10.28%	9.89%	9.40%	8.91%

2.13 *HRA Ratios* - The table below shows the ratio of HRA debt to HRA revenues. HRA revenues are based on the HRA Business Plan.

TABLE 7	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Ratio of HRA Debt to HRA Revenues	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
HRA debt	64	61	60	56	53	50	47
HRA debt cap	79	79	79	79	79	79	79
HRA revenues	16	16	16	16	16	16	17
Ratio of debt to revenues %	404%	380%	374%	352%	330%	312%	276%

2.14 The table below shows the ratio of HRA debt to the number of HRA dwellings. The number of HRA dwellings in 2017/18 is based on the latest projections for the year while from 2018/19 onwards is based on the HRA MTFS.

TABLE 8	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Ratio of HRA Debt to Number of dwellings	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
HRA debt £m	64	61	60	56	53	50	47
Number of HRA dwellings	3,701	3,691	3,681	3,671	3,661	3,651	3,641
Debt per dwelling £'000	17.22	16.48	16.26	15.35	14.43	13.65	12.87

TREASURY MANAGEMENT

2.15 The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Section D - Current Treasury Position

2.16 The net financing need for the year illustrates that based upon the latest estimates for 2017/18 borrowing of £43.6m will be required to finance the programme. This is in accordance with the Council's guiding principles. Although in the past the Council has not had to borrow from external sources for this funding, it has in effect borrowed the money 'from itself' from other cash holdings that the Council has. This internal borrowing over the past many years means that the council does not hold significant 'cash backed' reserves. The Council currently has long term HRA debt which was required to enact the self-financing transaction. Any borrowing will be in line with the prudential indicators and the borrowing strategy outlined in Section G.

2.17 The Council's latest treasury portfolio position:

TABLE 9	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	actual	latest estimate	estimate	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
External Debt							
Debt at 1 April	65,490	61,435	101,405	127,852	147,233	167,443	184,047
Expected change in Debt	(4,055)	39,970	26,447	19,381	20,210	16,604	(2,328)
Other long term liabilities (OLTL)	1,998	4,124	3,918	3,722	3,536	3,359	3,191
Expected change in other OLTL	2,126	(206)	(196)	(186)	(177)	(168)	(160)
Actual Gross Debt at 31 March	65,559	105,323	131,574	150,769	170,802	187,238	184,750
The Capital Financing Requirement	78,860	118,530	143,743	160,807	178,860	193,811	188,762
Under / (over) borrowing	13,301	13,207	12,169	10,038	8,058	6,573	4,012
Total Investments at 31 March							
Expected Investments	18,701	19,207	20,024	21,569	23,224	23,845	26,374
Net Debt	46,858	86,116	111,550	129,200	147,578	163,393	158,466

2.18 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following four financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. The Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the Council's budget reports that are currently under consideration.

Section E - Treasury Indicators for 2018/19 to 2022/23

2.19 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In

England and Wales the authorised limit represents the legislative limit specified in Section 3 of the Local Government Act 2003.

2.20 The following indicators are relevant for the purposes of setting an integrated Treasury Management Strategy. These are technical calculations, which are required to be set to comply with statute. The figures fall out of the Council's budget for 2018/19 and are created by applying a number of statutory calculations.

2.21 *The Operational Boundary* - this is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

TABLE 10	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Operational Boundary for external Debt	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	88,000	125,000	149,000	166,000	184,000	199,000	194,000

2.22 *The Authorised Limit for external debt* - a further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council.

TABLE 11	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Authorised limit for external Debt	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	93,000	130,000	154,000	171,000	189,000	204,000	199,000

2.23 HRA Debt Limit - Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This is in accordance with the settlement and was prescribed as part of the self-financing determination.

TABLE 12	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
HRA Debt Limit	**actual**	**latest estimate**	**estimate**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
HRA Debt Cap	79,146	79,146	79,146	79,146	79,146	79,146	79,146
HRA CFR	63,722	60,822	59,845	56,345	52,845	49,845	46,845
HRA Headroom	15,424	18,324	19,301	22,801	26,301	29,301	32,301

Section F - Prospects for Interest Rates

2.24 The Council has appointed Link Asset Services as the treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates.

Link Bank Rate forecast for financial year ends (March)

- 2017 / 2018 0.50%
- 2018 / 2019 0.75%
- 2019 / 2020 1.00%
- 2020 / 2021 1.25%

2.25 The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

2.26 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- The Bank of England takes action too quickly over the next three years to raise Interest Rates.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Political uncertainty in Germany, Italy and Hungary could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries.
- Developments in Czech and Austrian policies could provide major impetus to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp downturn in the Chinese economy.

2.27 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- Higher levels of UK inflation.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed could impact bond yield around the world.

Section G - Borrowing Strategy

2.28 *Borrowing rates* - The latest Capita forecast for the Public Works Loan Board (PWLB) new borrowing rate is as follows: -

(Link Interest rate forecast – 2nd January 2018)

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Mar-20
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	1.00%
5yr PWLB Rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	2.10%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.40%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.20%

2.29 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a short term measure. This strategy is prudent as investment returns are low and counterparty risk is high.

2.30 Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. Interest rates will be closely monitored and a pragmatic approach will be adopted to any changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates, then long term borrowings will be reconsidered, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

2.31 *Treasury Management Limits on Activity* - there are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Section H - Policy on Borrowing in Advance of Need

2.32 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

2.33 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Section I – Debt Rescheduling

2.34 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

2.35 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings
- helping to fulfil the treasury strategy
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

2.36 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

2.37 All rescheduling will be reported to the Council, at the earliest meeting following its action.

Section J – Municipal Bond Agency

2.38 It is possible that the Municipal Bond Agency (MBA) will be offering further loans to local authorities in the future. The MBA is aiming to have lower borrowing rates in the medium term when compared to the Public Works Loan Board (PWLB). This Authority will consider whether to make use of this alternative source of borrowing as and when appropriate.

Investment Strategy

Section K - Investment Policy

2.39 The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sector Guidance Notes 2017. The Council's overall investment priorities are:

- Security; the creditworthiness of the counterparty and;
- Liquidity; how readily available cash is; the term of the investment.

2.40 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority of security of its investments.

2.41 In accordance with guidance from MHCLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agengy. Using the Link ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

2.42 The Council recognises that ratings should not be the sole determinant of the quality of an institution and that it is important to contiunally assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain and monitor on market pricing such as “Credit Default Swaps” (CDS) and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Link Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.

2.43 Other information sources used will include the financial press, and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

2.44 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.The intention of the strategy is to provide security of investment and minimisation of risk.

Section L - Creditworthiness Policy

2.45 This Council uses the creditworthiness service provided by Link Asset Services. This service employs sophisticated modelling utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard and Poor’s. The credit ratings are supplemented with the following overlays: -

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

2.46 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands.

- Yellow 5 years
- Dark Pink 5years for Enhanced money market funds(EMMF) with a credit score of 1.25
- Light Pink 5 years for EMMF with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used

2.47 The Link Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system minimises exposure to just one agency’s ratings.

2.48 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of Credit Ratings the Council will be advised of information in movements in CDS against the iTraxx benchmark (A set of CDS indices) and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

2.49 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on any external support for banks to help support its decision making process.

2.50 Time and monetary limits applying to investments. The Council will only use UK institutions. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both Specified and Non-Specified Investments):

TABLE 13	**Minimum credit criteria / colour band**	**Max % of total investments**	**Max. maturity period**
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	AAA	100%	5 years
UK Government Treasury blls	AAA	100%	5 years
Bonds issued by multilateral development banks	AAA	100%	6 months
Money market funds	AAA	100%	Liquid
Local authorities	N/A	100%	10 years
Term deposits with banks and building societies	Yellow Dark Pink Light Pink Purple Blue Orange Red Green No Colour	100%	Up to 5 years Up to 5 years (EMMF 1.25) Up to 5 years (EMMF 1.5) Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100%	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 3 months Not for use
Gilt funds	AAA	100%	
Property funds			

Property funds are a longer-term investment tool, with an investment period of over 2 years. Balances available for investment will be based on the projected level of reserves and balances available for longer-term investment and appropriate due diligence will be undertaken before investing in Property Funds.

Section M – Cash Flow Investment Strategy

2.51 The Council's funds are mainly cash-flow derived. The Council will seek to utilise its notice and call accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest. Investments will be made with reference to cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

2.52 The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next four years are as follows:

- 2017 / 2018 0.50%
- 2018 / 2019 0.75%
- 2019 / 2020 1.00%
- 2020 / 2021 1.25%

2.53 Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

TABLE 14	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Principal sums invested for over 364 & 365 days	10,000	10,000	15,000	20,000	20,000	20,000	20,000

Section N - Policy on the use of External Service Providers

2.54 The Council continues to use Link Asset Services, as its external treasury management advisors for 2018/19.

2.55 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

2.56 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Section O – Investments that are not part of treasury management activity

2.57 The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment in property. The Council will ensure that all the organisation's investments are covered in the capital strategy or the property investment strategy, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. The risk appetite for these activities may differ from that for treasury management.

Note: All indicators have been reviewed by our external treasury advisors Link Treasury Services.